going to end up with about 600 million, so, and that includes exit financing.

The second goal is we've got two companies, the Genesis debtors and the Multicare debtors, and those companies were actually put together in 1977 when Genesis purchased about 43 percent of the stock of Multicare, along with a couple other entities who have since sold their interest. Through management agreements these two companies basically have been operating as one. And by doing that they recognized very significant synergies and very significant value as one. But they, because of the markets and because of the decline in reimbursement on the federal side, they were never able to complete the job and put the two companies together. What this plan does is it does exactly that, it merges the two companies together so rather than relying on management agreements which have to be negotiated periodically and different parties have different interests, we're going to put the companies together to lock in those synergies, to lock in the value that exists today. And you'll hear testimony as we go through the hearing about why that's important.

The other major thing that we did, Your Honor, is despite our view and the view of a lot of the experts you're going to hear from today and perhaps tomorrow, there simply is not enough enterprise value to get around to unsecured creditors if one strictly applies the absolute priority rule.

Now, it was the goal of the debtors from the beginning that we have a plan that was a consensual plan and that we had to find a way to have significant value go to creditors. And that's one of the main accomplishments of this plan. We did it without litigation and we did it, we did it in a way that unsecured creditors not only get something of value today but they get to share in any future appreciation of the value as the company goes forward.

So that's really the essence of the plan, and I'd like to keep those three things in mind because there's lots of details, and sometimes the big picture gets lost.

As a procedural matter, or by way of background, we commenced the cases June 22nd, 2000. On June 5th, almost a year later we filed our disclosure statement and joint plan, modified that a couple of times in the Third and the Fifth and I think right before Your Honor. On July 5th Your Honor approved the disclosure statement and allowed the debtors to commence soliciting acceptances and rejections, which we did.

Poorman Douglas, the voting agent for the debtors, has completed a certification of the tally, and Mr. Shalhoub will be talking about that, but to steal a little bit of his thunder or the best part of his lines, I'm happy to report that all but two classes, and just on the Genesis side, all but two classes that are entitled to vote have actually voted to accept the joint plan, all but two. One of those two classes that voted to reject is actually not going to contest the

confirmation. We have basically found a methodology to reserve those issues while we try to resolve that on a consensual basis. So that leaves only one class, Class G5 which is the subordinated note holders at Genesis who were entitled to vote and did in fact vote to reject.

In addition, we have some technical corrections to the plan. I suppose you see this at every confirmation hearing, and I'll go through those in detail.

The plan itself, as I said, it de-levers the company. There's only about 243 million dollars of restructuring debt that's going to go on the company, the rest is exit financing, a small amount of preferred stock, and all of the debt and preferred stock, as well as a good portion of the new common stock going to the senior lenders of both cases. But notwithstanding the lack of value though, a significant portion of the common stock and warrants to purchase an even larger portion of the common stock are going to the unsecured classes.

The plan has the support of all major constituencies, and I don't mean to make it seem small that G5 didn't vote in favor of the class. They're an important constituency as well, and we're going to have to deal with them today. But in support of the plan, we have the senior lenders from both companies and we have the Creditors Committees from both companies, you know, behind the plan and all of the specs.

Just looking at the agenda today, Your Honor, it

looks like we're probably going to need at least an hour, maybe an hour and a half of your time to get through everything. (Laughter)

THE COURT: You got that.

MR. WALSH: Thank you, Your Honor.

Well, to get through those few minor things, I'd like to propose a structure. I'll do it any way you want, Your Honor, but this sort of makes some sense to me. That we start with the solicitation procedures and the tally, move on to technical amendments, from there talk about the resolved objections, get everything on the record that people want on the record, allow people -- namely me but -- to make preliminary remarks about what's coming up, and then dive into the testimony. And the debtors will have a number of witnesses and we believe some of the objecting parties will have witnesses as well. And then at that time after all the evidence is in, we take the remaining objections which I count to be about 11 and deal with them on a one-by-one basis as we go forward.

THE COURT: That's fine.

MR. WALSH: That works for you. Thank you, Your Honor.

So, starting it off, I will ask Mr. Shalhoub -- wake up, Paul -- ask Mr. Shalhoub to describe the solicitation procedures and how we got to the vote.

THE COURT: All right.

MR. Shalhoub: Good morning, Your Honor. Paul Shalhoub of Willkie, Farr and Gallagher for the Multicare debtors.

Your Honor, I would like to thank Mr. Walsh for letting me do one of the more interesting portions of today's hearing, namely describing for the Court the noticing that took place in order to get to today as well as the solicitation process.

We did, Your Honor, give extensive notice of today's hearing in accordance with this Court's July 13th Order approving the disclosure statement. In this regard, publication notice was made in seven publications. Notice was published in the national editions of the Wall Street Journal, the New York Times, and the USA Today, and notice was also published in the local editions of the Boston Globe, the Baltimore Sun, the Philadelphia Enquirer, and the Tampa Tribunal, and appropriate certificates of publication have been filed with the Court.

As far as mailing, the debtors mailed solicitation packages containing copies of the disclosure statement Order, the confirmation hearing notice, the disclosure statement and the plan to many parties. This package was served on the U.S. Trustee, attorneys for Mellon Bank, attorneys for the Genesis Committee, attorneys for the Multicare Committee. All entities have filed proofs of claim. All persons scheduled in amounts

greater than zero dollars. The transfer agent and the registered holders of the debtor's common stock. All parties have filed a notice of appearance in these cases, the SEC, the IRS, the PPGC and the US Department of Justice.

In addition, holders of claims entitled to vote to accept or reject the plan were provided with a ballot. And holders of claims in unimpaired classes as well as classes deemed to reject the plan were provided with a notice of non-voting status.

Consistent with the disclosure statement Order, substantially all of the voting and non-voting packages were mailed commencing on July 18th of last month. A small number of mailings did take place after July 18th. These fall primarily into four groups of categories. First a small number of creditors that inadvertently didn't receive notice on the 18th, between the 18th and the 31st were provided with the appropriate voting or non-voting package. Second, with respect to Classes M12, M17, and the holders of the Genesis 9 and 7, 8 bonds and Class G5 so that just that portion of G5. They weren't served on the 18th because the debtors did not obtain the DTC participants listing until about a week after the 18th. They were served with a respective package prior to the end of the month. The indentured trustees for the relevant bond issues, and they all deal with bonds, were served on the 18th. And this group was provided when they were served with the

voting package with a notice that extended their deadline both for objections to confirmation as well as for voting on the plan to August 24th.

The third group of mailing that took place after the 18th related to the Court's ruling that creditors in Class G4 that had voted as of a certain date that may not have received the GMS's group letter urging them to reject the plan were provided with new ballots. Consistent with the Court's ruling on August 3rd, August 6th and August 8th, the debtors mailed new ballots to each of those parties. They mailed a copy of the GMS rejection letter urging them to reject the plan. They mailed a copy of the Genesis Committee letter urging them to accept the plan, as well as a notice explaining why they were receiving a new ballot.

And lastly, on August 10th, voting packages were mailed to approximately 100 holders of litigation type claims that originally were provided with a non-voting package. They were provided with a ballot and a voting package on August 10th and we extended their deadline to vote on the plan to August 24th as well.

All these mailings are set forth in detail in the affidavits of mailing that have been filed with the Court.

With respect to the actual solicitation of the votes, as Mr. Walsh referenced, Poorman Douglas was retained as balloting agent in these cases. Yesterday the debtors filed a

declaration of Laura Dibiase, that's D-I-B-I-A-S-E of Poorman Douglas certifying acceptances and rejections to plan. The voting declaration sets forth in detail the manner in which the solicitation was conducted and the procedures that Poorman followed in receiving and tabulating the votes. Annexed to the exhibits to the voting declarations are both summaries of the voting results as well as the detailed voting of reports.

THE COURT: That certification has not found its way to me. Do you have an extra copy of it?

MR. SHALHOUB: May I approach?

THE COURT: Please. I didn't know what I was asking for. Can you summarize the results of the voting in each class?

MR. SHALHOUB: I can, Your Honor.

Starting with Multicare, Class M2 which is the Multicare senior lender claims unanimously voted to accept the plan. Class M4 which is the Multicare general unsecured claims voted to accept the plan with approximately 89.9 percent in number and 82.1 percent in dollar amount voting to accept.

THE COURT: I'm sorry. 81.1?

MR. SHALHOUB: 82.7 in dollar amount.

THE COURT: Go ahead.

MR. SHALHOUB: Class M5 which is the Multicare sub-debt unanimously voted to accept the plan. And Class M17, the only other Multicare class entitled to vote, also unanimously voted to accept the plan.

With respect to Genesis, Class G2 which are the Genesis senior lender claims, unanimously voted to accept the plan. Class G4 which are the Genesis general unsecured claims voted to accept the plan with 75.6 percent in number and 80.5 percent in dollar amount voting to accept. Class G17 -- G1-17 voted to accept the plan. There was only one voting person in that class. And as Mr. Walsh referenced, Class G16, G1-16 voted to reject the plan, although we've agreed to reserve issues with respect to that class for another day. And Class G5 voted to reject the plan.

THE COURT: What was the voting in G5?

MR. SHALHOUB: G5, 70.4 percent in amount voted to reject and 85.9 percent in dollar voted to reject. The 85.9 percent represents approximately 182 million dollars. Your Honor will recall that GMS has stated that they represent approximately 150 to 160 million dollars of bonds, and that Grimes represents approximately -- Mr. Grimes represents approximately 25 million dollars. So I think that number is largely composed of those two particular bond holders.

With that, unless Your Honor has any questions.

THE COURT: All right, thank you.

In terms of the technical adjustments to the plan, unless there are specific questions or points that you'd like to highlight, I'm not sure that we need to spend the time to spread on the record these amendments.

MR. WALSH: That's fine, Your Honor. Is there anyone in the court who would like a further explanation? Would you like a brief summary?

THE COURT: Highlights, if you like.

MR. WALSH: Highlights.

THE COURT: Is there anything that we really need to know in terms of the structure of the plan?

MR. WALSH: No. Some of the unimpaired classes, despite the plan saying that they were unimpaired, decided that they wanted to spell out exactly how they were supposed to be unimpaired, so we do that for a number of classes. I think they're now unimpaired within a inch of their lives, but if that's what they wanted, that was fine with us.

THE COURT: Those are specific mortgages and so forth.

MR. WALSH: Correct. We did make one little error. We inadvertently left out one of the pieces of collateral for Class G1-17. Now I didn't think it was that big a deal, it was just the corporate headquarters but that was pointed out and we felt compelled to put that back in.

THE COURT: All right.

MR. WALSH: The other thing that I'd like to point out is the plan refers to a settlement with the federal government. And we had always intended that the federal government settlement and the Genesis Multicare settlement will

be integral parts of the plan. But it just took longer to do that settlement than we anticipated. We finally got that signed up and the seal lifted in at least some of those cases on Friday. So rather than trying to sort of jam everybody today and get that approved as part of the plan, we're going to do that by separate motion, so we made some technical adjustments for that.

That's basically it, Your Honor.

THE COURT: All right, let's proceed.

MR. WALSH: Okay. There are a number of objections that we have resolved that don't require plan changes. So I'll go through those one by one. People may want to put some additional statements on the record.

The first one relates to the synthetic lease lenders. That's Class G1-17 and Class G2. Your Honor, this -- I need a little bit explanation here. This instrument, this so-called synthetic lease, is a technique to keep, to have debt that actually doesn't show on the balance sheet of a company, even though for legal purposes, remedial, bankruptcy, et cetera, it's treated as a financing. But because of that title, nominal title to the properties, including the corporate headquarters I might add, are in the name of a third party. Now as part of the plan we are splitting the claims of those lenders into two pieces because the collateral does not support the full amount of their debt. And the deficiency is going to roll over into Class G2. But the portion that's in G1-17 we're

going to give a new mortgage to. In order to give the mortgage though, we need to get the title actually transferred, actually transferred to the debtor so we can give back the mortgage. So we don't have to make an adjustment to the plan but we'll be putting something in the Confirmation Order that authorizes the nominal title holder today to actually make that transfer.

Second, we have sort of an ongoing unresolved dispute with an individual who has had a couple of contracts with the company. His name is Mr. Bonfein. We've been trying to resolve the issue for quite some time. We're not quite there yet. Some of the issues relate to whether his contracts are executory or non-executory. And as you know, we're making decisions as part of the plan as to which contracts we're assuming or rejecting. In order not to prejudice him while we continue to work on that, we've entered into a letter agreement which basically says that the plan will not prejudice, will allow us to make a motion to assume the contracts, if we believe they're executory or reject them in the future, and he reserves the right to move to force, to compel us to do that, notwithstanding the fact that the plan gets confirmed. So, I believe that letter has been filed with the Court under response from Mr. Krakauer of Sidley & Austin, and I think he's present in Court. Are we okay?

MR. KRAKAUER: I have it here.

THE COURT: All right. Any further expression on

this?

MR. KRAKAUER: No, Your Honor. I filed a description of the letter and I'd just like to file the letter so it's in the court records.

THE COURT: Indeed you may.

MR. WALSH: You thought I was going to forget you. Put you right up front. Okay.

The company as you know, the companies as you know have thousands and thousands of employees, and some significant portion are subject to collective bargaining agreements. We think our working with the unions has been good in this case, but they would like a letter from us confirming that we are assuming the collective bargaining agreements. We of course are willing to do that. The letter will also say that if there are employee disputes under those agreements, that those disputes will just continue in the normal course. I don't know if anyone here is from the union. Okay.

The next resolution is from a taxing authority in a county in Texas. We call it Beksar County (phonetic) but when we called them up to see if we could resolve this, they've never heard of Beksar County. In Texas they call it Behr County. So once we got the pronunciation right, we easily struck a deal. Basically we've agreed to pay them, what, a few thousand dollars, to the extent that they're secured and they've withdrawn their objection.

Now, the Class G1-16 is the other class that voted no

and is the class that we are reserving, where both sides are reserving the issue for a future day. And the issues, just to give you a preview, Your Honor, are really pretty simple. It's going to be what's the real value of their piece of collateral, did we peg the note right, did we get the interest rate right, et cetera. So we are going to basically hold that off for another day. They're not going to object to the plan. The effect of this reservation is that the plan won't be confirmed as to that one particular debtor. This won't make any effect on the operations of the company and we think that that's the smart way to go for that issue. Is anyone here from Meditrust or THCI?

MS. COUNIHAN: Good morning, Your Honor. Victoria Counihan on behalf of THCI Company. Mr. Walsh is correct in his recitation to the Court. We have agreed on language that my understanding is going to be inserted into the Confirmation Order, that basically reserves all of our rights, reserves the debtor's rights, and specifically lays out four or five different things that we have brought up in our objection that we specifically want to be reserved. So as long as this language is included in the Confirmation Order then I am at liberty to withdraw our confirmation objection.

THE COURT: Very good.

MR. WALSH: Your Honor, we had intended to file the Confirmation Order, but as you can see, we're still making last minute adjustments. So as soon as it's available we'll get it

to Your Honor as well as file it.

THE COURT: Fine.

MR. WALSH: In addition we have Class G1-13. This is a secured class that is impaired, and after further discussions with that class, we are actually making some adjustments in how they're being treated. We are going to give them an additional $212,000 of I think over a million dollars of arrearages because we believe the property was worth a little bit more than our original assessment. We've also agreed that in giving them a new note, to include a provision in the new note as to, that would prohibit early payment or prepayment, and that provision is going to be similar to what they had in the old note. I think I've summarized it correctly. Anyone here for them?

MS LAWSON: Yes, I believe that's correct.

THE COURT: All right. Would you identify yourself, please.

MS. LAWSON: Yes, Kim Lawson.

THE COURT: All right.

MR. WALSH: Okay. Susquehanna is a company that is itself in Chapter 11, and Genesis is a major creditor, so they get the experience on both ends. Susquehanna has raised the issue that our plan says that the debtor can exercise setoff rights. It's a normal plan provision. But they wanted us to make clear that if we were going to do that with respect to

them, that Your Honor would not be giving us the authority to do it without us getting a lifting of the stay in their case, which seemed perfectly logical to us. So we made that change in the Confirmation Order. Is anyone here from Susquehanna?

We also have some Pennsylvania taxing authorities that like Behr County, we've agreed to pay them to the extent that they are secured. We have a couple of partial, partial partial resolution. One of the tort claimants, Mr. Goff, pointed out in his papers that he was uncertain whether post-petition tort claims would be discharged by the plan. And suggested that we take a look at the language that was inserted into the Vencore (phonetic) Confirmation Order. We looked at that and we certainly had no intention of taking post-petition tort claims and discharging them. We think that they should just be dealt with in the ordinary course, and so we've included the Vencore language in the Confirmation Order. Mr. Goff does have other objections which we'll be dealing with later.

On the Multicare side, Mr. Shalhoub, are there any?

MR. SHALHOUB: Just a couple, Your Honor. There's an Indiana taxing authority like with respect to Pennsylvania and there's a Pennsylvania taxing authority in Multicare as well. And we agreed that they would be paid in full to the extent they have a valid claim.

And with respect to the objection filed by the

Massachusetts Housing and Finance Agency, we've agreed the language to include in the Confirmation Order. That resolves their objection.

MR. WALSH: Okay. The last one is both a tiny resolution of an issue but a question to the Court. This involves the United States Trustee. Mr. McMahon suggested that there were a number of issues that he wanted to raise, one of which was that we had included in our standard exculpation clause the disbursing agent, and he told us that he thought that would be inappropriate. So we have taken that out of the exculpation clause, so that's one little issue.

Now, we have a number of other issues with the US Trustee but I just want to talk about one for a second, because it affects the timing and you know, where we deal with it because there's some testimony that's involved.

We are having what I think is a bona fide dispute about what the fees are under Section 1930. We're looking to the debtors that actually make disbursements. I think the US Trustee is saying well, those really should be allocated to all the debtors. As you know, we've got like 350 debtors here. So it can make a very significant difference in the amount of money, about three and a half million dollars I think in total.

We would like to resolve this issue for another day. And we think the best way to do this, and this is just our suggestion, Your Honor, if we need to do it today we're prepared to do that. Our suggestion is that we take the full

amount that the US Trustee says is due and put it into an escrow account. That way we're protected against overpayment, the Government is protected, they know that the money is sitting there, and the confirmation hearing is not burdened with what I think will be testimony about who's making disbursements here and who's there and all that stuff.

That's our proposal. I know that Mr. McMahon doesn't think that that quite does it for him, and so I would throw it to Your Honor.

THE COURT: Well, let me hear from him. Sir?

MR. McMAHON: Thank you, Your Honor.

Your Honor, good morning, Joseph McMahon for the United States Trustee. I would briefly dispute Mr. Walsh's characterization of dealing with this issue at the confirmation hearing as being burdensome. If it is burdensome to the debtors I would simply suggest that the Code makes it that way. If we look at Section 1129, I believe it's (a)12, it says "that all fees payable under Section 1930 of Title 28 as determined by the Court at the hearing on confirmation of the plan have been paid or the plan provides for the payment of such fees on the effective date of the plan."

I think the Code language is fairly clear as to how Congress would expect the Bankruptcy Courts to deal with this specific issue.

Your Honor, in terms of expediting the process for

today, let me suggest that the United States Trustee is willing to have the matter heard at the end of the valuation testimony. Certainly, Your Honor, I recognize that there are a number of parties in interest sitting here today that have no interest in hearing the debtors and the United States Trustee litigate this specific issue. I do have a witness present with me, Your Honor, Jeffrey Hack, who is a bankruptcy analyst from our office. And what I'd really like to do is deal with the issue at the confirmation hearing but at a time that Your Honor deems appropriate in terms of dealing with it.

With respect to the suggestion of escrowing the amounts allegedly due would be appropriate, well, I think the Code language deals with that issue. And second, the fees are either due or they're not. Now it's kind of like I think we really have to resolve this issue one way or the other.

And third, to the extent that Your Honor would deem it, that any type of escrow would be appropriate, we would suggest that there would have to be some provision that interest would be included, accruing at the federal judgment rate for those fees that are past due and owing.

THE COURT: Thank you, sir. I'm just looking here, from your reading of the Code provision. It does suggest a, more than suggest but expresses a requirement really of resolving the issue at confirmation at the hearing on confirmation of the plan. That's pretty specific. Indeed, the

proposal for escrowing is reasonable, but in light of that clear language, I appreciate the offer of saving it to the end, I think that's what we will do, but we will hear from your witness before we're through to try to resolve the issue.

MR. WALSH: Your Honor, would Your Honor permit -- I think the fees have to paid as of the effective date, Your Honor. And we are anticipating to go effective assuming you confirm the plan through this hearing by the end of September. I think that we could have a separate hearing dealing with this issue. And really what we've got here is there's no question we will pay the fees. We think we have paid the fees.

THE COURT: There's no question about that. Was there another expression on this, sir?

MR. TODER: Richard Toder, Your Honor, Morgan, Lewis & Bockins for the senior lenders. I was going to make a similar point, that it seems to me that parsing the language, it would be consistent with subparagraph 12, for the Court to determine that in fact will make this determination prior to the effective date and payment will be made at the effective date. But since there's a significant window of perhaps three to four weeks, it just seems that because there are so many parties, even in the sense of having it at the conclusion of the hearing, the Court might conclude for example that there were legal issues that would require briefing. The suggestion that we might hold up the Confirmation Order because we haven't

come to conclusion on that seems a bit much. One of the things that I've always found is that the Courts have been unique in finding the necessary flexibility under the Code so long as we don't do violence to any particular stricture. I think there's room within this to come with a sensible approach.

MR. WALSH: There is actually at least one case in the Southern District which did say when there was a dispute on what the fees were, that putting the money aside into escrow was an appropriate thing to do. That's In Re: Flatbush Associates at 198 BR 75.

MR. McMAHON: Your Honor, when Congress gives the Bankruptcy Court equitable power, it does so expressly. Quite frankly the Code language is quite clear, and as an expression of the fact that again a lot of people here don't need to specifically hear this argument. We'd be willing to arrange maters in whichever way Your Honor deems appropriate.

THE COURT: Let me reflect that at least to the extent that testimony is necessary, I will hear it. If we can resolve it as a part of the confirmation process, indeed on its face the statute does require it. If it is not possible and it is the only point that is avoiding a Confirmation Order, we'll have to rethink it. Because indeed, the escrowing of monies and the opportunity to pay in full on the effective date, if the decision is that indeed the full amount is due, would be accomplished, which is the primary thrust of the provision.

So we will try to bring it to bottom line, and we'll

see. Indeed, the broader picture must be reviewed, not to say that this isn't as important as any other provision of 1129, but we'll certainly hear the testimony and try to resolve it.

MR. McMAHON: Your Honor, as a practical matter, I have my witness here. What I'd like to do is release that witness, go back to his work duties --

THE COURT: Indeed, and we will be able to gauge as we go how we're doing and I'm sure there will be sufficient time to notice him of when he might return.

MR. McMAHON: Okay, thank you very much, Your Honor.

THE COURT: Thank you.

MR. WALSH: Thank you, Your Honor. I think that's very helpful.

Okay, what's next in my structure is basically to just give a couple preliminary remarks by people who are interested in doing so before we dive into the evidence.

THE COURT: Yes, in shortened version.

MR. WALSH: Yes.

THE COURT: I have familiarized myself with the terms of the plan and so forth. Go ahead, please.

MR. WALSH: Very short. There's several objections, but the one that I think is going to take up the most time is the valuation issue. We have two groups of creditors in Class G4 who basically want to show that -- I'm sorry, G5 that want to show that the claims in G2 are being made more than in full.

So there will be quite a bit of valuation testimony because most of the recovery for those claims is common stock. So as the enterprise value increases, so will the common stock.

The only thing I want to make a point at now, Your Honor, because I think it's important before we hear all the valuation testimony is that there's a hurdle. In other words, it's possible to calculate what payment in full would be, or what the enterprise value would have to be for payment in full of Class G2. And so, while you're hearing the testimony, you'll be able to sort of gauge, you know, who's coming close or who's below or who's above.

We calculated the hurdle as part of our responsive papers. You may recall charts on page 5 and 6, but just as we were filing our responsive papers, we were looking at one of the expert reports for GMS and saw that rather than calculating it on the basis of Genesis alone, they looked at the whole enterprise, which I think is an equally valid way to do it. So we thought that, again for purposes of putting things into context, it would be helpful just to say what the valuation hurdles are both for if it's Genesis alone because you'll be hearing testimony on Genesis alone, and for the combined entity because G2 gets a piece of the combined entity and what that valuation is.

So, Your Honor, I have two charts here. One is bankruptcy right out of our papers. If I could approach.

THE COURT: Thank you.

MR. WALSH: Number one and number two.

And I have additional copies if anyone wants to see them, we can hand them out in a second.

THE COURT: Let the record reflect simply that these documents are entitled debtor's table one and debtor's table two. We won't make them otherwise.

MR. WALSH: Okay. The bottom line of the tables, and then I'm finished with my preliminary remarks is that this, what I call the hurdle, the break-even point, the 100 percent for Class G2, we believe is about a 1.548 billion, if you just look at Genesis alone, and it's 2.065 billion if you look at the value of the combined enterprise. So, just to keep this into perspective as we hear all the valuation testimony.

That's it for preliminary remarks. I'd like to pass on the podium to see if anyone else would like to make a statement.

THE COURT: Sir?

MR. REID: I'm sorry. Just a point of information, Your Honor.

THE COURT: Would you identify yourself please for the record.

MR. REID: Ira Reid, LeBoeuf, Lamb, Greene & MacRae.

THE COURT: I guess, hopefully that gate does open.

MR. WALSH: Part of our strategy.

MR. REID: Before I begin, because I saw Mr. Walsh

looking at me, I understood that he wanted to make preliminary remarks now and also deal with remaining objections after witnesses. I didn't know whether the intention was for the various objectors to make preliminary remarks prior to the introduction of witnesses, which I'm prepared to do, or if the Court --

THE COURT: I think it's better perhaps as we take up each such objection, in turn it would be preferable to hear it that way. And in terms of other preliminary comments, every constituent, every party in interest who wants to be heard will be heard. I think it's better by way of conclusory remarks rather than preliminary remarks because we'll certainly have those as well. So I would -- unless there is a point that is crucial to consider at this stage, I would propose to proceed with witnesses. Of course, objectors will have the opportunity to produce witnesses as well. Thank you, sir.

MR. REID: Thank you, Your Honor.

MR. GEORGE: Your Honor, Edmund George for the AGE. Just so I'm trying to understand the process that we're going through. The AGE entities' objections, although they deal with some of the issues that Mr. Walsh mentioned with respect to enterprise value, there are other objections that go to the punitive damage classification, the releases. Is it Your Honor's intention to take those after the testimony also?

THE COURT: Yes.

MR. GEORGE: Okay.

THE COURT: All right. If there are no other preliminary comments, then let's begin with the witnesses.

MR. WALSH: Thank you, Your Honor. Okay. The debtors are prepared to put on the case so we have three witnesses. George Hager for both debtors, Genesis and Multicare, he's the chief financial officer. William McGahn who is vice chairman of UBS Warburg the financial advisors for Genesis, testifying as to value. And on the Multicare -- that's on the Genesis side. On the Multicare side, Mr. Hal Kennedy, managing director at Credit Suisse First Boston, financial advisor for the Multicare debtors.

Before we actually start the testimony though, I think we have a proffer with respect to KPMG and the liquidation analysis. Mr. Shalhoub?

MR. SHALHOUB: For the record, Paul Shalhoub of Willkie Farr.

Your Honor, we filed on Friday an affidavit for Stephen B. Darr of KPMG. He's a partner in the corporate recovery practice group at KPMG. I don't think anyone has disputed the liquidation analysis in these cases. The affidavit sets forth that each creditor is going to receive under the plan more than it would receive in a hypothetical Chapter 7 liquidation. I'm prepared to do a proffer today if Your Honor requires that Mr. Darr is in the courtroom.

THE COURT: Is there anyone who would want to be heard about that? Yes, sir? Your name, please.

MR. HUDGENS: David Hudgens with Armbrecht Jackson, LLP representing Todd Martin. We've objected to the plan and move for appointment of a trustee to consider a number of things. We do not believe that all the considerations that need to be, all the factors that need to be considered in a liquidation plan have been considered. For example, we don't believe that there has been a consideration of selling off portions of the business in the same manner they were acquired. We also notice in the disclosure statement that the valuation of the land for the liquidation analysis was 25 to 50 percent of cost, equipment 10 to 20 percent of cost --

THE COURT: Well, let's stick with the manner in which we proceed. What we have is an offer of proof of Mr. Darr's testimony. It was only, it meaning his certification, was only submitted last Friday so you may or may not have had the opportunity to review it deliberately. If there is a quest to cross-examine that information, we should have Mr. Darr take the stand and present it and then we'll hear from you in terms of your questioning. The only question I think is whether we can accept the certification and report as his direct testimony and then subject it to cross-examination. Of course it would be helpful to me to have an overview from him to help me through the report, and then to follow it with cross. I take it we need to engage in that exercise. Is that accurate?

MR. HUDGENS: We will certainly need cross-examination, Your Honor.

THE COURT: All right. So we will proceed. We can do that now or we can do it later, at your pleasure.

MR. SHALHOUB: If I may get it over with now, Your Honor.

THE COURT: Okay.

MR. WALSH: The debtors would like to call Mr. Stephen Darr.

STEPHEN B. DARR, SWORN

THE COURT: Can we dispense with voir dire on qualification of Mr. Darr. Where do we have the objector?

MR. HUDGENS: That's fine, Your Honor.

THE COURT: All right. We can go straight to, indeed the certification recites Mr. Darr's qualification and I'm satisfied to qualify him as an expert for our purposes today.

MR. HUDGENS: Your Honor, are there other copies of the certification? We didn't receive them in the package that we received. Oh, thank you very much.

THE COURT: Go ahead, sir.

DIRECT EXAMINATION

BY MR. SHALHOUB:

Q. Good morning, sir.

A. Good morning.

MR. SHALHOUB: Your Honor, may I approach the

witness?

THE COURT: Please.

Q. Mr. Darr, do you recognize that document I just handed to you?

A. Yes, I do. It's an affidavit that I signed on August 23rd.

Q. And are there any exhibits to your affidavit?

A. Yes, my resume, a copy of a liquidation analysis for both Genesis and Multicare as of March 31st, 2001, along with explanatory notes.

Q. Are you an attorney, Mr. Darr?

A. No, I'm not.

Q. Do you understand why a company that's operating in Chapter 11 would perform a liquidation analysis?

A. Yes, I do. Under the so-called best interest tests, each class of creditors is entitled to receive under a plan of reorganization at least as much as it would receive under a hypothetical Chapter 7 liquidation. And that is the purpose for which this liquidation analysis was prepared.

Q. Who prepared the liquidation analysis?

A. The debtor prepared the liquidation analysis with KPMG's assistance.

Q. And what was KPMG's role in the preparation?

A. Basically we explained to both debtors the necessity for the liquidation analysis, assisted them in identifying assets

that were available for the probable method of liquidation under a hypothetical Chapter 7, provided them with information as to what the estimated costs would be under a hypothetical Chapter 7 liquidation, and finally we assisted the, both debtors in assembling and compiling the information.

Q. In your prior experience have you participated in connection with the preparation of liquidation analyses for other debtors?

A. Yes, I have. Very numerous ones. I've been doing corporate recovery work for about 20 years. Most notably I've done or supervised or assisted in liquidation analysis for a number of healthcare companies that's outlined in my affidavit. If I can refer to it, it includes Care Matrix Corporation, Frontier Health Group, Olympus Healthcare Group and the Newport Hospital. Newport Hospital is actually a Chapter 7 liquidation where I was the Chapter 7 trustee and liquidated the company.

Q. And do the liquidation analyses that are attached to your affidavit, are they the same analyses that were attached to the disclosure statement?

A. They're on the same basis but they're not exactly the same. The disclosure statement was based on accounting figures asa of December 31st. In anticipation of today's hearing we updated the information to have it based on accounting numbers as of March 31st, 2001. But the basis for presentation and the basis of the calculations is the essentially the same.

Q. And did your conclusion change?

A. No, it did not. The estimated liquidation values changed very little between March 31st and -- or December 31st and March 31st, 2001.

Q. Is your ultimate conclusion or is the ultimate conclusion of the liquidation analyses that the best interest test is satisfied or not satisfied?

A. My conclusion is that the best interest test is satisfied by the plan.

Q. And is this the case with respect to both the Genesis debtors and the Multicare debtors?

A. Yes.

Q. And do you believe the analysis fairly and accurately represents recoveries that would be available in a Chapter 7 liquidation?

A. I believe it's a reasonable representation of what might be recovered in a Chapter 7 liquidation, yes.

Q. And could you direct where in the affidavit or in the analysis that the summary that the best interest test is satisfied?

A. Well, the issues placed for Genesis is on the page titled liquidation analysis. The net estimated proceeds available for distribution after estimated Chapter 7 administrative claims were paid is between 427 million and 693 million dollars. When you compare that to the secured claims outstanding of a billion, almost a billion five hundred million, it's clear that

under a Chapter 7 liquidation all of the assets, all of the proceeds from liquidating the assets would go to pay the secured claims and there would be nothing left for either Chapter 11 administrative claims, pre-petition priority claims, or unsecured claims. There'd be no recovery to any of those classes.

And the same holds true with respect to Multicare except the numbers are a little bit different. The liquidation proceeds are estimated to range net of Chapter 7 administrative costs to range between 131 million and 207 million, and there are total secured claims outstanding against those proceeds of 470 million. So again, there would be no recovery for administrative, priority or pre-petition unsecured claims.

MR. SHALHOUB: No further questions, Your Honor.

THE COURT: All right. Identify yourself again, please, sir.

MR. HUDGENS: My name is David Hudgens. I'm representing Todd Martin.

CROSS-EXAMINATION

BY MR. HUDGENS:

Q. Mr. Darr, you may have to suffer with me a little bit because I received your affidavit two or three minutes ago. I believe it arrived at my office after I left coming here.

In your affidavit, you said you reviewed, discussed and tested for reasonableness the assumptions and various

underlying estimates of liquidation values of specific assets and cost categories. Do you recall?

A. Yes.

Q. Can you tell me what you did to review and test for reasonableness the assumptions made in your analysis?

A. Basically we compared them to liquidation sales of other healthcare companies. We looked at other sales of healthcare companies. Clearly we didn't test the assumptions on either Genesis or Multicare's analyses by going out and seeing what we could get for an asset. We basically related it to information that was publically available from other cases both in and out of bankruptcy.

Q. So you did no market testing?

A. No, sir.

Q. I also notice that you have assumptions that various sectors of the business would be sold off as ongoing enterprises. For example, the pharmacy and medical supply services and as a separate category, physical speech and occupational rehabilitation services?

A. Yes.

Q. And I think there are several others. Did you assume that that entire block of services would be sold as one ongoing enterprise?

A. Yes.

Q. Did you --

A. I'm sorry. We assumed that each one of those.

Q. I'm sorry, my question was not clear. Did you give any consideration to breaking those blocks down and selling the blocks off in smaller chunks?

A. No, because we didn't believe that it would impact the multiples significantly by selling them off in piecemeal fashion.

Q. Did you look to see whether the debtors acquired those services as a entire group or whether they acquired them kind of piece by piece?

A. We did not do a specific review to see how the pieces were acquired by the debtors.

Q. So you didn't do any analysis to see whether the same method they acquired the services would be the best method of selling them off?

A. Well, we did assess the best method of selling them off and we believe that it was the best method of selling them off was piecemeal.

Q. What did you do --

A. Piecemeal.

Q. Piecemeal as --

A. Lines of business but not breaking up the lines of business into further divisions.

Q. Okay. Even though the debtor had acquired those lines of business in small pieces, hadn't it?

A. That's correct.

Q. Okay. Did you do any testing for value of the different hard assets? For example, the buildings and land?

A. I'm sorry, the buildings --

Q. Buildings and land.

A. To the extent that we did look at other cases in terms of liquidation values of buildings, et cetera, but most of the land and buildings were going to be sold as part of the ongoing businesses, and what was left over was not significant.

Q. When you said you looked at other cases, do you mean other liquidation cases?

A. Other liquidation cases, yes.

Q. Of other companies?

A. Yes.

Q. Okay. You did not try and obtain a value for any piece of land or any building owned by the debtors, did you?

A. No, we did not.

Q. Did you review to determine whether either the debtor or any of its creditors had appraisals or other valuation reports for any land or buildings?

A. We did ask if the debtor had any appraisals and we were told that there were none for the, or we couldn't find any, or the debtor couldn't find any. And when I say debtor I mean both debtors.

Q. But you know that the debtor had been through a series of financings over the course of recent years, didn't you?

A. Yes, but we didn't believe that those appraisals would necessarily have been appropriate because of the change in the economic climate in the healthcare industry.

Q. But you didn't even review those appraisals, did you?

A. No.

Q. Did you review any of the buildings or land to see if they were suitable for uses other than the healthcare industry?

A. I know we considered certain of the buildings such as the office building in Kenneth Square, but in terms of past experience in the healthcare industry, it's very difficult to convert a nursing home into anything else.

Q. But you didn't look at any specific properties?

A. No.

Q. Do you know how many pieces of property the debtors --

A. I'm sorry, could you repeat that question.

Q. Do you know how many separate parcels of property the debtors collectively own?

A. I don't recall.

Q. Do you know any estimation of how many pieces of property?

A. I just don't recall.

Q. Okay. Did you do any valuation of claims that the debtor might have against its officers and directors?

A. No, I did not.

Q. Did you discuss any such claims with any of the debtors?

A. I believe we discussed it with counsel. Excuse me, I

believe we discussed it with counsel as to whether or not we should put preference and avoidance actions and other similar type issues in the liquidation analysis and we determined that we would not.

Q. Well, how about as opposed to preference and avoidance actions, direct actions by the debtors against the officers and directors for their acts?

A. No, we did not include those in the analyses.

Q. You don't have any idea whether any of those exist or what they would be valued at if they existed, do you?

A. No, sir.

Q. When I talked about buildings and land, and we talked about the things you didn't do, I assume you did not do any of those things with regard to equipment either, did you?

A. Most of the equipment would have been sold under the assumption that the profitable operations were sold as a going concern. The remaining equipment we looked at. I did talk with some auctioneers as to what it was, could be assumed would be a representative recovery on them.

Q. Of the, what, I'll call excess equipment?

A. Yes, but I mean --

Q. But not of all the equipment, did you?

A. No.

Q. And you didn't do any analysis of just going out and selling negotiated sales of the equipment, did you?

A. No, we did not.

Q. Do you know what the construction in progress is?

A. I don't recall just now.

Q. Do you know how the value for it was reached?

A. I'd have to go back and look. I don't recall.

MR. HUDGENS: I believe that's all I have of this witness, Your Honor.

THE COURT: All right. Redirect?

MR. SHALHOUB: Yes, sir. Just a couple of additional questions, Your Honor.

THE COURT: Sure.

REDIRECT EXAMINATION

BY MR. SHALHOUB:

Q. Mr. Darr, could you turn to page 1 of Exhibit B of your affidavit.

A. Yes, I have it.

Q. Approximately a little more than halfway down the page, there's a column to the right hand side that has a heading "estimated recovery"; do you see that?

THE COURT: Exhibit D?

MR. SHALHOUB: Exhibit B as in baby.

THE COURT: Yes.

A. Yes, I see that.

Q. Could you tell me the number that is estimated for proceeds available for distribution, the range of numbers?

A. 427 million on the low side to 693 million on the high

side.

Q. And a little further down on the page there's a line item for total secured claims; do you see that?

A. Yes, I do.

Q. And could you tell me the estimated balance for the total secured claims?

A. A billion four hundred eighty-eight -- a billion four hundred eighty-nine million dollars.

Q. So approximately how much would this liquidation analysis have to be off by in order for creditors to not receive under the plan what they otherwise would receive in a liquidation?

A. Between a hundred and 200 percent.

Q. Could you put that in dollar amounts for me?

A. I would have to be off by between 800 million and a billion dollars approximately.

Q. And could you turn please to page 1 of Exhibit C.

A. Yes.

Q. The Multicare liquidation analysis?

A. Yes, I have it.

Q. Again, approximately halfway down the page there's net estimated proceeds available for distribution?

A. The estimates range from a low of 131 million to a high of 207 million.

Q. And again, could you find on this page the net balance of the total secured claims?

A. It's approximately 470 million dollars.

Q. So with respect to Multicare, how much would this liquidation analysis have to be off by in order for creditors, unsecured creditors to not receive distributions under the plan that would exceed what they would receive in a Chapter 7 liquidation?

A. Between 250 million to 325 million dollars.

MR. SHALHOUB: I have no further questions, Your Honor.

MR. TODER: Your Honor, may I ask some questions?

THE COURT: Certainly.

MR. TODER: In your experience --

THE COURT: Your appearance please.

MR. TODER: I apologize. Richard Toder, Morgan, Lewis & Bockins.

CROSS-EXAMINATION

BY MR. TODER:

Q. In your experience, if equipment is sold separate from the underlying business, is it likely to derive more or less than if it is sold as part of an ongoing business?

A. It's likely to receive much less.

Q. And is it your testimony based on your experience in the healthcare industry that a sale of the lines of business as you outlined is more or less likely to maximize recoveries as distinguished from sales of individual facilities?

A. It's more likely.

Q. Thank you.

THE COURT: Let me ask you, sir. Indeed, you have focused on the sale of operating entities, and the -- presumably some of the property plant and equipment, book value numbers and the, perhaps the good will numbers might be incorporated in the sale of operating entities, would it not?

THE WITNESS: That's correct, Your Honor.

THE COURT: How did you calculate those numbers, that range of numbers for the sale of operating entities?

THE WITNESS: Your Honor, what we did was we took the operating businesses that were generating positive results of operations that were profitable, and in discussions with the financial advisors, we did determine what they were using for multiple in their estimates, and that was a range at that time of six to seven times earnings, which is reasonable in relation to my experience in the healthcare business. And said, that's what they would be worth in a going concern arm's length transaction. And then we said but in a Chapter 7 you're not going to realize as much as you would because of the time pressures and because everybody would know that the trustee would be under some pressure to sell them. And we assumed I think a six month sale process, and based on that we discounted, we took the earnings, applied a multiple of six to seven times earnings and then discounted it from 30 to 50 percent to come up with the high and the low ranges. So a

trustee, under the hypothetical Chapter 7 you would receive between 50 and 70 percent of the fair market value in a long drawn out process.

THE COURT: And that was only the profitable ongoing enterprises?

THE WITNESS: Yes, because we did not believe that the unprofitable enterprises, and there are very few of them, but the unprofitable enterprises, there was no method of valuing them other than to say a liquidation piecemeal.

THE COURT: And that would be accounted for, let's say in the property, plant and equipment numbers?

THE WITNESS: Yes, Your Honor.

THE COURT: All right. Did I generate any questions, sir?

MR. HUDGENS: You didn't, but other counsel did. Well, you may have also.

THE COURT: Go ahead.

RECROSS-EXAMINATION

BY MR. HUDGENS:

Q. Mr. Darr, going to the judge's questions first I guess. On the liquidation analysis, you didn't give any value to good will though, did you?

A. No. We wouldn't do that in this type of an analysis.

Q. I understand but I just wanted to be clear.

Do you know where all the various properties of the

debtors are located?

A. Generally I know that they're located throughout a multitude of states but I have not visited them.

Q. And do you know when the various properties were acquired by the debtors?

A. No, I do not.

Q. Do you know the rate of inflation of real property including improved real property in any of those locations over the period of time that the debtor has owned the property in those locations?

A. No, I do not.

Q. This liquidation analysis though assumes, actually assumes a depreciation of 50 to 75 percent, doesn't it?

A. I'm sorry, can you direct me to what you're specifically looking at?

Q. I'm looking at page 5 talking under paragraph G2, the liquidation recovery as a percentage of cost is assumed to be the following, buildings and land 25 to 50 percent?

A. That's only in the corporate division. That's not the operating expenses, the operating divisions.

Q. And what assumption is made on the operating divisions?

A. Again, we valued the operating divisions as a going concern and used the multiple of six to seven percent and then discounted them. So that, the bulk of the fixed assets would be sold as part of the going concern.

Q. The bottom line answer though is nothing, right? You --

A. No.

Q. You didn't consider a separate sale of the building and land, right?

A. That's correct. We did not consider a separate sale of the building and land.

Q. So you didn't try and place any value on it for those purposes?

A. No, because that wouldn't be the way you would liquidate it under a Chapter 7.

Q. Do you know how you would liquidate it under a Chapter 7?

A. I have a good idea.

Q. Do you know whether it could have been liquidated in a Chapter 11?

A. It could have been liquidated in a Chapter 11.

MR. HUDGENS: That's all, Your Honor.

THE COURT: All right. No further questions, thank you, sir. You may step down.

THE WITNESS: Thank you, Your Honor.

THE COURT: All right. We can continue. Thank you.

MR. WALSH: Your Honor, our next witness is Mr. George Hager, and my colleague, Mr. Adam Strochak will take him through direct.

GEORGE HAGER, SWORN

MR. STROCHAK: Good morning, Your Honor. Adam Strochak, Weil, Gotshal and Manges for the Genesis debtors.

DIRECT EXAMINATION

BY MR. STROCHAK:

Q. Good morning, Mr. Hager.

A. Good morning.

Q. Are you an officer of the debtor, sir?

A. I am.

Q. What positions do you hold?

A. I am the executive vice president and chief financial officer.

Q. How long have you been with the companies?

A. I joined Genesis in 1992.

Q. Do you work at the company's headquarters in Kenneth Square?

A. I do.

Q. And where do you live, sir?

A. I live in Haddonfield, New Jersey.

Q. Could you just briefly summarize your educational background, please?

A. Yes. I have a Bachelors in economics from Dickinson's College and an MBA from Rutgers Graduate School of Management.

Q. What are your employment responsibilities, Mr. Hager?

A. I've been the chief financial officer at Genesis since I joined in 1992. Under that responsibility I have all controllership functions, treasury functions, internal audit, IS functions, tax functions, are the major areas of

responsibility.

Q. To whom do you report within the company?

A. I report directly to the chief executive officer and chairman of the company, Mike Walker.

Q. Mr. Hager, did you have any particular responsibilities with respect to these Chapter 11 cases?

A. Yes. I was given the primary responsibility of managing all of the activities directly dealing with the reorganization process, including dealing with the development of the plan's reorganization, the financial forecast, negotiating with the various constituencies, the Creditors Committees of both Genesis and Multicare.

Q. Mr. Hager, what generally is the debtor's business?

A. The debtors are primarily operate two business lines. The operation of long term care facility servicing the needs of the elderly population, principally in five markets on the east coast of the United States.

Secondly, a subsidiary of Generis Health Ventures, Neighbor Care, operates an institutional pharmacy business. It is the third largest institutional pharmacy in the country.

Q. Mr. Hager, does Multicare have an institutional pharmacy business?

A. It does not. Multicare actually sold its institutional pharmacy business to Genesis approximately three months after Multicare was acquired into the joint venture in 1997.

Q. With respect to the long term care business, who were the debtor's main competitors in that business?

A. I would say that our business and the healthcare business in general is a local business, so you compete in each individual market. Generally from a public market perspective, Genesis would be grouped with companies like Beverly Enterprises, the newly emerged Kindred Healthcare, formerly Vencore, currently companies still in Chapter 11, Mariner Health, Mariner Post Acute Network, Sun Health, Integrated Health Services, as well as Matter Care.

Also, the institutional pharmacy component of our business, our competitors would be Omni-Care and NCAS, both public companies, and Pharmerica, a subsidiary of Bergen Brunswick.

Q. Mr. Hager, as a part of your responsibilities at the companies, do you monitor the financial performance of the debtors' major competitors?

A. I really don't spend a lot of time in monitoring it in detail the performance of our competitors. Obviously, the competitors are public companies. We see their press releases and we look at those at a high level to see how we're performing against our peers in the industry.

Q. What are some of the factors that affect financial performance in the long term care business?

A. The long term business is, you look at the operation of a

skilled nursing facility, the vast majority of our payments come from government sources. Over 65 percent of our patients are on the Medicaid programs in the states we operate in, and approximately 14 percent of our patients are covered by Medicare. So as you can see, a significant component of our revenue source comes from government sources. So the adequacy of those payment rates, whether or not those payment rates match, the underlying cost inflation of our industry is a critically important component of the financial performance of the skilled nursing facility.

On the cost side, the vast vast majority of the cost in a skilled nursing facility are fixed and they are labor related, primarily nursing.

Q. Mr. Hager, are you familiar with the term payer mix?

A. I am.

Q. Could you just briefly explain what payer mix means in the context of the long term care business?

A. Payer mix is intended to represent the payment sources of your patients or customers. As I said, in Genesis case, Medicaid would be our largest percentage payer, with Medicare being, and our private payment sources being second and third.

Typically, the industry classifies payer mix in three broad categories; Medicaid, Medicare and private and other. And private would include all of the other payment sources, not only people paying out of their own pocket but also commercial insurance, managed care payers, et cetera.

Q. With respect to payer mix, how do the debtors compare to their main competitors in the long term care business?

A. My latest recollection of the public information would tell me that we compare very closely to the likes of a Beverly Enterprises or a Kindred Healthcare or Mariner Post Acute Network. Manor Care would be an outliner in our sector. They have employed a strategy very different than ours, primarily focused on a private paying population so you'll see that their payer mixed is significantly more weighted to a private payment source than is Genesis or many of our other competitors.

Q. What's the current relationship between Genesis and Multicare?

A. Genesis owns 43 percent of Multicare as it did when Multicare was acquired as a preexisting public company by a joint venture. It was acquired by Genesis and two private equity sponsors, the Cypress Group and the Texas Pacific Group.

We continue to own that 43 percent interest. At the point in time of that acquisition by the joint venture, the joint venture entered into a management agreement with Genesis and Genesis manages all the operational and financial affairs of Multicare under a management agreement.

In addition, as I stated earlier, Genesis acquired the pharmacy business of Multicare and we provide pharmacy services to Multicare as well. Genesis also provides rehabilitation therapy services to Multicare.

In November of 1999, the relationship with Cypress and TPG was restructured and they converted their investment in Multicare to an investment in Genesis preferred stock. They also made an equity investment at that point in time in Genesis Health Ventures.

At the point in time of that renegotiation, Genesis received an option to acquire the remaining 57 percent of Multicare for I believe two million dollars.

Q. Mr. Hager, are Cypress and TPG receiving any distributions under the proposed plan of reorganization?

A. They are not.

Q. When were the contracts between Genesis and Multicare first put into place?

A. Well, clearly the management contract was put in place at the time of the acquisition of the joint venture which I believe is October 1997. The pharmacy agreements principally were in place when Genesis acquired the pharmacy business from Multicare. They were serving the majority of their own facilities through their own pharmacy.

And the rehabilitation therapy contracts were put in place I believe for the most part during calendar 1999.

Q. Were any changes made to the contractual relationships between Genesis and Multicare during the course of these Chapter 11 cases?

A. There was no change in the contractual relationship made,

but when both companies filed Chapter 11 it was considered important to retain an independent restructuring officer for Multicare which was done. Her name was Beverly Anderson, who had no contact with either company prior to that appointment. She was also appointed to the Multicare Board, and at that point the Multicare Board consisted of Beverly Anderson, myself, Mike Walker and Rick Howard, Rick Howard being the vice chairman of Genesis.

One of Beverly Anderson's duties was to evaluate the contractual relationships between Genesis and Multicare and determine whether or not if Multicare could get in a competitive market situation better rates for services. Those evaluations were done. Beverly Anderson was supported by an independent financial advisor, Ernst & Young. The results of those negotiations were that the payment rates charged by Genesis to Multicare were reduced by approximately 11.9 million dollars. Those reduction in payments are reflected in the operating cash flow and evaluations of each of the respective individual states.

Q. Were the new prices actually put into effect?

A. They were not.

I will add that on a cash flow basis, the cash that is exchanging hands on a monthly basis between Genesis and Multicare is reflective of the revised contractual rates.

Q. Mr. Hager, did Genesis and Multicare have any claims against each other in these Chapter 11 cases?

A. When both Genesis and Multicare filed, Multicare owed genesis approximately 56 million dollars for services provided primarily pharmacy, medical supply and rehabilitation therapy services.

In addition, under the management agreement that was signed in 1997, it was a six percent of revenue management agreement, four percent was paid in cash and two percent was deferred and subordinated. That deferred subordinated payment could only be paid if Multicare achieved certain leverage levels. It never achieved those levels. The deferred management fee was approximately 35 million dollars.

Multicare also alleged certain claims against Genesis as well.

Q. Have you reached any resolution of these claims?

A. Yes. We entered into negotiations with Multicare, both sides represented by counsel, and we agreed to settle the claims against each other with no payments being made to either estate. Being that that was a prudent approach in light of the expected recovery which we did not believe would be significant for the Genesis unsecured claims, we believe both estates would benefit by an efficient resolution to the claims against each other as opposed to any lengthy litigation.

Q. Could you just elaborate for a second why you thought the recovery in those claims would be insignificant?

A. Well, we saw obviously daily the level of cash flows that

were generated by both estates, and we could see how our respective businesses were being valued both in the public and private domain. We did not believe based on that level of cash flow and valuation that there would be a material recovery to the unsecured creditors in either estate.

Q. Mr. Hager, I just want to turn your attention to a few questions about the debtors' financial projections underlying this plan of reorganization. And I'll start with just a few background questions.

When does the debtors' fiscal year begin and end?

A. We're September 30th year end.

Q. So does that mean we're in fiscal 2001 today?

A. We are. We are approaching the end of fiscal 2001.

Q. Does the company prepare an annual budget?

A. It does.

Q. Could you just briefly summarize the budget process for me?

A. I would describe the budget process as a ground up process. Each individual operating unit, that's each individual nursing center or assisted living facility, pharmacy unit, built its budget from the ground up, pay period by pay period, payment source by payment source. That process is consolidated and reviewed with our Board typically very close to the end of the fiscal year end or the beginning of the new budget year. I believe this year's budget, the 01 budget was completed very

early in October.

Q. As a general matter, does the company anticipate that it will actually achieve the numbers in the budget?

A. Historically I would say it has been my experience at Genesis that Genesis has had very lofty targets in its budgets, setting high expectations for its managers, as that is the basis for our evaluation of performance. We have traditionally not achieved our historical budget levels.

Q. Does the fiscal 2001 budget which you prepared last October contain a projection for earnings before income -- excuse me, earnings before interest, taxes, deprecation, and amortization or EBITDA?

A. It does.

Q. In the October budget what was the target EBITDA for the companies?

A. I believe the consolidated target EBITDA for the companies was approximately 212 million dollars.

Q. How does that break down between Genesis an Multicare if you recall?

A. I believe Genesis was approximately 170 million and Multicare was 42 million dollars. Obviously they did not reflect any of the contract renegotiation issues that we talked about.

Q. And if I understand what you said before, as we're approaching the end of fiscal 2001, are there actual results in place -- for how many months are actual results in place now

for 2001?

(Tape #1 ends; Tape #2 begins)

And what is your projection for EBITDA for the full year fiscal 2001?

A. Obviously we're going to have to estimate where we think the months of August and September will come out, but through ten months we are tracking on a consolidated basis behind that forecast not dramatically. I believe Genesis numbers will come out actually in the 161 to 162 million dollar range and that Multicare numbers will come out in the 51 to 53 million dollar range.

Q. And I think if my math is correct, that's a consolidated range of 212 to 215, is that right?

A. That's correct.

Q. Mr. Hager, what are the, what is the projected EBITDA, 2001 EBITDA -- let me restate it this way. Is there a projected 2001 EBITDA that is incorporated into the assumptions in the plan of reorganization?

A. There is.

Q. And what is that number, sir?

A. It's I believe slightly less than 215 million dollars.

Q. Could you tell me how you derive that number?

A. The number is derived, go back to the beginning of calendar 2001, we had seen at that point two months of actual results against our budget. We had seen our centers, other care

centers, nursing home division, operating under budget at that point, not meeting its census targets. We saw our pharmacy business also not operating at budget levels. However, we saw our rehab business exceeding our original budget targets.

In addition there was some legislative changes. We were now able to at least estimate the impact of the newly signed Benefit Improvement Protection Act on our business, and that was due to be effective April 1st of 2001.

In addition we had completed some renegotiation of some managed care contracts with significant payers primarily in our Midatlantic region, Pennsylvania, and New York, Independence Blue Cross, US Healthcare, Horizon, all familiar names to people in this area. So we reflected all of those issues that now we knew or were fairly certain of that would affect the 2001 results that were not considered in the original formation of the 2001 budget.

Q. And did you come to some conclusions based on that updated information?

A. I believe the end result was that we reduced our budget in total on a consolidated basis to about 207 million dollars.

Q. In the course of the process of formulating and negotiating a plan of reorganization, did you make any other projections as to 2001 EBITDA?

A. Well, since we were under performing to the budget and obviously wanting to demonstrate to our creditors what we

thought the longer term cash flow potential was in the organization, we actually ran calculations. We used the concept or the name normalized and we calculated what we called normalized 2001 EBITDA reflecting the full year impact of certain of those changes that I just discussed like the Benefit Improvement Protection Act that wouldn't impact us for the entire fiscal 2001. The intent of that presentation was to present the EBITDA on a future basis at a level that we were hopeful that we could achieve sometime in fiscal 2002.

Q. Earlier, Mr. Walsh mentioned the synthetic lease facility. Could you just briefly explain how the synthetic lease facility affected the financial projections that underlie the plan of reorganization?

A. Sure. In the historical financial statements, when the original budget numbers that are presented, the 170 million dollars for Generis, we had a synthetic lease facility that we recognized as rent expense. Under this plan, that lease will be converted into debt and the assets will be owned by Genesis Health Ventures. Therefore, the rent expense associated with the synthetic lease which is approximately 7.8 million dollars a year at Genesis, needs to be added back to the EBITDA.

So when you look at our revised budget of 207 million dollars off the original 212 million dollars on a consolidated basis, to get to the approximate 215 million dollars of EBITDA in the first year forecast, you need to add the 7.8 million dollars of rent expense related to the synthetic lease back.

Q. Now the 215 number you referred to on a consolidated basis, how does that break down between Genesis and Multicare if you recall?

A. I believe the, in the original forecast we were expecting Genesis to do approximately 158 million dollars, and I believe Multicare in the neighborhood of 57 million dollars.

Q. I believe you mentioned earlier that you made some adjustments based on changes in government reimbursement rates under new legislation. Could you just briefly elaborate on the rationale for those changes?

A. Well, there is new law, new payment program for our industry as it relates to the Medicare population that's effective April 1st. That law was passed and covers actually only an 18-month period. If we do not receive new legislation, those payment increases will cease November 30th of 2002. But with the new law passed, we estimated the impact of those payment rates on our Medicare population, between both estates we serve almost a little over one million Medicare patient days per year and our payment rates were increased by a little less than $21 per patient day. So it was approximately a 21 to 22 million dollar impact for a full year, and in fiscal 2001 we would realize half of that increase.

Q. As an overall matter, how would you characterize the company's EBITDA projections?

A. We attempted to put forth what I would call a middle of

the road forecast. We knew that these forecast would be the basis of the debt that would be put on the reorganized entity and we wanted to obviously assure ourselves that in light of the risk in government payment programs, that we would be able to service the debt in the post emergence period. Our forecasts do contain two relatively material risks. We are in litigation on a major contract in the pharmacy business with one of our competitors, Manor Care. It's approximately 100 million dollar book of business and Manor Care is alleging that they do have a right to terminate that contract. That is subject to an arbitration proceeding that recently was completed. We do not have any result of that hearing.

Secondarily, we also have forecasted that the increased payments from the Benefit Improvement Protection Act will continue through the entire forecast period despite the fact that the current legislation would have those payments expire November 30th of 2002.

Q. Did the projections have any sensitivities on the expense side of the equation?

A. We have assumed in these forecasts that the Medicaid and Medicare payment rates will increase at approximately the same level as our cost. Now over the past three years we have not seen that relationship. Our labor costs have increased between six and eight percent and our Medicaid payment rates have increased less than five percent. But we do believe that this